

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: JUL 10 2007

SUBJECT: Fiscal Impact Statement: "Department of Mental Health Career Service, Excepted Service, Management Supervisory Service and Wage Grade Service Non-Collective Bargaining Unit Employees Pay Equity Compensation System Changes Emergency Approval Resolution of 2007"

REFERENCE: Draft Resolution to be Introduced – Number Not Available

Conclusion

Subject to the Council approval of the Department of Mental Health's proposed FY2008 budget reprogramming of \$1.4 million which allocates funding from non-personal services (i.e., contractual services) to personal services and adjusting DMH's baseline budgets accordingly for FY 2009 through FY 2011, there are sufficient funds for the agency's pay parity, compression, and conversion proposals. Council's approval in FY 2008 of the attached proposed budget reprogramming is necessary to finance this compensation proposal. Upon Council's approval of the proposed FY 2008 DMH reprogramming, the Office of Budget and Planning will adjust the agency's baseline operating budget to reflect this permanent re-direction of funding to balance the financial plan for FY 2008 through FY 2011.

Background

The proposed resolution would approve compensation system changes recommended by DMH in order to address the union vs. non-union pay issues of pay parity and pay compression. In recent years non-union employees have not received pay that has been

granted to other District of Columbia government employees. One result is that pay inequities exist for both non-union DMH clinical and non-clinical staff.¹ The disparity is especially noted among physicians and nurse supervisors.

The legislation is designed to (i) bring salaries of non-union employees in line with union employees (pay parity); and (ii) convert supervisors to a new Management Supervisory Service (MSS) system in order to correct pay disparities that have caused some supervisors' pay to be lower than the pay of the employees supervised (pay compression). Taken together, the proposed modifications will affect 346 employees. The pay parity provisions are to be made retroactive to February 18, 2007. The MSS provision would be made effective as of July 1, 2007.

Three actions are necessary to finance these compensation proposals: 1) an allocation from the workforce investments account (FY 2007); 2) a budget reprogramming (FY 2008) of DMH funds within the DMH budget, and 3) the DMH memorandum of intent to make the FY 2008 reprogramming a permanent redirection of funds within the agency's baseline budget for FY 2009 through FY 2011.

Financial Plan Alternatives

The implications of the three actions necessary to finance these compensation proposals are identified below (Tables 1-3).

Table 1 below presents the gross *expenditure flows* (that is, total expenditures ignoring any 2007 reallocation or FY 2008 reprogramming) that are associated with this current proposal. This table is presented in order to reveal the full costs to DMH of the pay proposal.

Table 2 then shows the impacts on the 2008 through 2011 financial plan under the *status quo*. It should be interpreted as a net expenditure flow table that will exist if the Council does not act to approve the FY 2008 expenditure re-programming and then make that reprogramming permanent.

Table 3 shows that if during the FY 2009 budget cycle the Council acts to accept the July 9, 2007 DMH memorandum of intent (attached), funds will be sufficient over the FY 2007-FY 2011 financial plan. Per the DMH letter of intent to make the FY 2008 redirection of funds permanent, the District Office of Budget and Planning will reflect this agency policy change in the DMH baseline budget during the FY 2009 budget cycle.

¹ These are adjustments to payroll; that is, the numbers are fully loaded to include salary and overhead (e.g., benefits).

To summarize:

- (1) The FY 2007 funding requirement is \$1.58 million. The Department of Mental Health has identified \$768,447 in one-time vacancy savings which, together with \$816,000 in funds from the Workforce Investment Fund, will cover the FY 2007 costs. No Council action is required for this reallocation of funds.
- (2) The FY 2008 funding requirement is \$3.11 million. To fully fund the \$3.11 million, DMH has included \$1.70 million in its FY 2008 budget for this purpose as well as further identified \$1.4 million to be re-programmed within the DMH budget to cover the remainder of the required \$3.11 million (see attachment).
- (3) Financial Plan Sufficiency in FY 2009 and the out years will require future Council adoption of the CFO's baseline budget *via* the Mayor's proposed FY 2009 operating budget. This is due to the fact that the FY 2007 and FY 2008 funds are derived from the *ad hoc* redirection of funds, and, thus, as noted above, the pay adjustments are not part of any future baseline budget. Such Council action during the FY 2009 budget cycle will avoid a potential negative financial plan impact. (Table 3).

Table 1: Gross Expenditure Flow of DMH Pay Adjustments

(S in Millions)					
FY 2007*	FY 2008*	FY 2009	FY 2010	FY 2011	5 - Year Total
\$1.58	\$3.11	\$3.21	\$3.30	\$3.40	\$14.60

Table 2: NET Financial Impact of DMH Resolution Assuming No Council Actions to Approve DMH Adjustments

(S in Millions)					
FY 2007*	FY 2008*	FY 2009	FY 2010	FY 2011	5 - Year Total
\$0.00	\$1.41	\$1.45	\$1.49	\$1.54	\$5.89.

Notes:

FY 2008: $(3.11 - 1.7 = \$1.41)$ where the \$1.7 is the FY DMH reallocation of FY 2008 funds. The net \$1.41 is the short fall that will accrue if Council does not approve the added \$1.41 reprogramming
 FY 2009 through 2001: Starting with the \$1.41 shortfall in 2008, the next years are the short fall reflecting adjustments for inflation. Thus, for 2009 and inflation rate of $(1.45/1.41 = 1.028)$ reflects a projected annual rate of inflation of 2.8%.

Table 3: Financial Plan Sufficiency of DMH Pay Resolution If Council Were to Approve DMH Adjustments

(S in Millions)

FY 2007*	FY 2008*	FY 2009	FY 2010	FY 2011	5 - Year Total
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Attachment: Memorandum of Baron to Gandhi, July 9, 2007.